

EUROPEAN PARLIAMENT

EUROPEAN PARLIAMENT DELEGATION

for relations with the

UNITED STATES

Summary Record of 21st Meeting

16-19 January 1983

ATHENS

16.2.1983

PE 83.220

THE UNIVERSITY OF CHICAGO

PE 83.220

I. INTRODUCTION

Programme of the visit

Sunday 16 January

Morning Individual arrival of European Parliament Delegation Members in Athens. Rooms have been reserved at:

Hotel Grande-Bretagne,
Constitution Square,
Athens.

Tel: 323 02 51 Telex: 219615

13.25 Arrival of United States Congress delegation by special plane at Athens Airport International Terminal, where they will be met by representatives of the European Parliament, of the Protocol Service of the Greek Ministry of Foreign Affairs and of the US Embassy in Greece, and transfer by coach to hotel Grande-Bretagne.

15.00 Departure from hotel Grande-Bretagne for guided tour of the Acropolis.

16.45 Return to hotel Grande-Bretagne.

17.15-17.50 Meeting of staff of the European Parliament Delegation:

Conference Room, Ground Floor,
Hotel Grande-Bretagne.

18.05-18.20 Preparatory meeting of European Parliament Delegation.

19.00 Reception given by the America-European Community Association (AECA) and hosted by Sir David NICOLSON, MEP, Chairman of the AECA, in honour of the two delegations (invitations only)

Mirror Room, Ground Floor,
Hotel Grande-Bretagne.

Monday 17 January

Conference Room, Ground Floor - Hotel Grande-Bretagne

09.10-12.55 First working session of delegations from the European parliament and the United States Congress.

The draft agenda (PE 82.293) includes:

Monday 17 January (cont'd)

1. Economic and monetary questions

Crisis of the international banking system and problems of third-world indebtedness.

2. Political questions

East-West relations and their implications for trade.

3. Trade questions

Trade relations between the EC and the US in the aftermath of the GATT Ministerial meeting and the December meeting between US Cabinet Members and Members of the EC Commission.

4. Miscellaneous

14.00 Official luncheon given by Mr Ioannis HARALAMBOPOULOS, Foreign Minister of Greece (invitation only)

Dining Room, Ground Floor,
Hotel Grande-Bretagne.

15.45-18.05 Second working session of delegations. Continuation of discussion of agenda items.

18.40 Depart hotel by bus for President's Palace for reception given by President Constantine KARAMANLIS, President of the Hellenic Republic (invitation only).

20.00 Depart Presidential Palace/Hotel Grande-Bretagne for:

20.30 Dinner given on behalf of the President of the European Parliament in honour of the two delegations:

Taverna Aglamer,
Akti Koumoundourou 54-56,
Mikrolimano.

Tel: 411 55 11.

Tuesday 18 January

Conference Room, Ground Floor - Hotel Grande-Bretagne

09.05-12.35 Third working session of delegations. Continuation of discussion of agenda items.

10.35 Adjournment of session for an exchange of views with the Prime Minister of Greece, Mr Andreas PAPANDREOU.

13.00 Lunch - own arrangements.

15.15-17.45 Fourth working session of delegations. Continuation of discussion of agenda items.

19.45 Departure from hotel Grande-Bretagne for:

20.30 Dinner/buffet, with entertainment, hosted by the President of the Greek Parliament, Mr Ioannis ALEVRAS, at the

Astir Palace Hotel, Vouliagmeni.

Wednesday 19 January

Conference Room, Ground Floor - Hotel Grande-Bretagne

10.10-11.15	Discussions with the Greek Minister of Foreign Affairs, Mr Ioannis HARALAMBOPOULOS, and the Minister of National Economy, Mr Gerasimos ARSENIS.
11.15-12.40	
12.40-13.40	Press conference given by the Chairmen of delegations, followed by
13.40	Informal buffet at the hotel, offered by Mrs Eva GREDAL, Chairman of the European Parliament Delegation.
Afternoon	Free.
18.45	Departure from hotel for reception given by Ambassador and Mrs STEARNS at the Ambassador's residence: 18 Panaghi Kyriacou, Ambelokipi. Tel: 721 29 51-9, 721 84 01
20.30	Return to hotel.

Thursday 20 January

08.15	US Congress delegation departs hotel Grande-Bretagne for Hellenikon Air Base.
09.00	Departure of aircraft.

List of Members of the European Parliament Delegation participating in
the meeting

Mrs Eva GREDAL, Chairman of the Delegation	Socialist, Denmark
* Mr Vincenzo GIUMMARRA, First Vice-Chairman	European People's Party, Italy
* Mr René PIQUET, Second Vice-Chairman	Communist, France
Mr Heinrich AIGNER	European People's Party, Germany
* Lord BETHELL	European Democrat, United Kingdom
Mr Erik BLUMENFELD	European People's Party, Germany
Mr Roland BOYES	Socialist, United Kingdom
Mr Elmar BROK	European People's Party, Germany
Mr Fritz GAUTIER	Socialist, Germany
Mr Niels HAAGERUP	Liberal, Denmark
Mr Leonidas LAGAKOS	Socialist, Greece
Mr Erwin LANGE	Socialist, Germany
Mr Jacques MOREAU	Socialist, France
* Sir David NICOLSON	European Democrat, United Kingdom
* Mr Efstratios PAPAEFSTRATIOU	European People's Party, Greece
Mr Carlo RIPA di MEANA	Socialist, Italy
Mr Sergio SEGRE	Communist, Italy
Mrs Simone VEIL	Liberal, France
* Mr Michael WELSH	European Democrat, United Kingdom
Mr Karl von WOGAU	European People's Party, Germany
Mr Ernest GLINNE	Socialist, Belgium
Mr Helmut RIEGER	Socialist, Germany

* Accompanied

EUROPEAN PARLIAMENT STAFF

Committees and Interparliamentary Delegations

Interparliamentary Delegations

Mr Theo JUNKER, Head of Division
Mr James SPENCE, Principal Administrator
Mr Chris PIENING, Administrator
Mrs Penny WATSON, Assistant
Miss Michèle DELACOUR, Secretary
Miss Elaine WHITWORTH, Secretary
Miss Anne-Marie GENSØ, Secretary

Committees

Mr Peter WOLTERSDORF, Principal Administrator, Committee on External
Economic Relations
Mr Barry WATERS, Administrator, Political Affairs Committee

Directorate-General for Research and Documentation

Mr Alfredo DE FEO, Administrator

Directorate-General for Administration, Personnel and Finance

Mr Jacques CHRISTIANY

Political Group Secretariats

Socialist Group:	Mr Norbert GRESCH
Group of the European People's Party:	Mr Bruno OHLS and Mr Spyridou PAPAGEORGACOPOULOS
European Democratic Group:	Mr A TEASDALE
Communist and Allies Group:	Mr Gérard LAPRAT
Group of European Progressive Democrats:	Mrs C LELIEVRE

Other European Community Staff

Council:	Mr Jean MESTDAGH
Commission:	Mr Albert MAES, D.G. I Mr Jim TALBOT, Washington Office

List of Members of the United States Congress Delegation participating

*Mr Tom LANTOS, Chairman of the Delegation	(D-California)
*Mr Sam M GIBBONS, Co-Chairman	(D-Florida)
*Mr Larry WINN, Co-Chairman	(R-Kansas)
*Mr Don L BONKER	(D-Washington)
*Mr William F CLINGER	(R-Pennsylvania)
*Mr E Thomas COLEMAN	(R-Missouri)
Mr James J FLORIO	(D-New Jersey)
*Mr Bill FRENZEL	(R-Minnesota)
*Mr James R JONES	(D-Oklahoma)
*Mr Norman F LENT	(R-New York)
*Mr Donald J PEASE	(D-Ohio)
*Mr J J PICKLE	(D-Texas)
*Mr John F SEIBERLING	(D-Ohio)
*Mr Norman D SHUMWAY	(R-California)
*Mr William M THOMAS	(R-California)

* Accompanied

List of US Congress Delegation staff

Mr Chips CHESTER, Staff Consultant, House Committee on Foreign Affairs
Mrs Elizabeth DAOUST, Protocol Coordinator, House Committee on Foreign Affairs
Mrs Alison FORTIER, Minority Consultant, House Foreign Affairs Sub-Committee
on Europe and the Middle East
Mr Don FORTIER, Director, Western Europe and NATO, National Security Council
Mr Kenneth MOSS, Staff Assistant, House Foreign Affairs Sub-Committee on
Europe and the Middle East
Mrs Roxanne PERUGINO, Staff Assistant, House Foreign Affairs Sub-Committee
on Europe and the Middle East
Ms Dawn JACKSON, Staff Assistant, House Committee on Foreign Affairs
Mr David LOVING, First Secretary, USEC, Brussels

Military Escort

Colonel Larry AYRES, US Army
Colonel John HUTTON, US Army (Doctor)
Staff Sgt. Howard Lee WILLIAMS
Sgt. Greg CHERRY

List of Members of Chairman ZABLOCKI's Delegation

Mr Clement ZABLOCKI, Chairman	(D-Wisconsin)
* Mr William S BROOMFIELD	(R-Michigan)
* Mr E DE LA GARZA	(D-Texas)
* Mr Jerry HUCKABY	(D-Louisiana)
* Mr Robert J LAGOMARSINO	(R-California)
* Mr Bill NELSON	(D-Florida)
* Mr Bruce F VENTO	(DFL-Minnesota)

* Accompanied

List of Staff and other personalities accompanying Chairman ZABLOCKI's Delegation

Congressional Committee Staff

Mr John J BRADY, Jr., Chief of Staff, House Committee on Foreign Affairs
Mr Everett E BIERMAN, Minority Staff Director, House Committee on Foreign Affairs
Mr A Mario CASTILLO, Staff Director, House Committee on Agriculture
Mr George BERDES, Staff Consultant, House Committee on Foreign Affairs
Ms Shelly LIVINGSTON, Budget/Fiscal Affairs, House Committee on Foreign Affairs
Ms Constance YESH, Executive Secretary, House Committee on Foreign Affairs
Ms Nancy MIMS, Staff Assistant

US Administration

* Honorable Russell A ROURKE, Assistant Secretary of Defence for Legislative Affairs
Honorable Powell A MOORE, Assistant Secretary of State for Congressional Relations
Colonel Karl LAUENSTEIN, Department of Defence

Office of the Speaker

Mr Carl GODFREY
Ms Rita HAWKINS

Military Escort

Colonel John CADY, US Air Force
Captain Robert SMOLEN, US Air Force

* Accompanied

II. SUMMARY OF THE WORKING SESSIONS

Monday, 17 January 1983, 09.10-12.55 hrs
Working Session on Economic and Monetary questions

Exchange of views on the crisis of the international banking system and problems of Third World indebtedness

Mr PIQUET opened the discussion by analysing the problem of indebtedness in the context of the North-South dialogue. His particular concern was the plight of the world's poorest countries. According to the latest OECD calculations the total indebtedness of the developing countries was 626 billion dollars. Of this figure some 106 billion dollars was owed by the 13 developing countries of OPEC, and 266 billion dollars by the eight Newly Industrialised Countries, such as Mexico and South Korea. This left a figure of 254 billion dollars owed by the remaining 134 developing countries, which included the world's poorest (countries with a per capita GNP of lower than 600 dollars per annum in 1980).

This latter category was of particular concern to Europe since it included nearly all of the Community's partners under the Lomé Convention. They were also the countries where the consequences of this difficult financial situation were the most severe in human terms: Famine and sometimes death of the local population.

The relatively modest proportion of the overall debt owed by these countries did mean, however, that a minimum of additional help from the advanced countries (possibly by paying higher prices for their exports of raw materials, or even a moratorium) could be of enormous help to a large number of countries. Mr PIQUET stressed that whereas the world's 134 poorest countries owed 254 billion dollars, four countries alone (Brazil, Mexico, South Korea and Argentina) owed 160 billion dollars.

Another important point revealed by the OECD figures was that the poorer countries were by no means worse at paying back their loans than other borrowers. They were, however, the hardest hit by the increasing cost of servicing debts, high interest charges and the fluctuations on the international money markets where the erratic movements of the dollar had been a major factor.

Mr PIQUET felt it should be possible for both delegations to move towards a common approach to the world debt problem and to put forward some possible solutions. Among the ideas being advocated in Europe were: New approaches to food aid and production (including greater self-sufficiency and greater variety of agricultural production); raising world market prices of certain basic commodities, particularly agricultural and mineral products; the creation of a safety net to stabilize the earnings of certain countries from particular commodities - along the lines of the Lomé Convention's stabex system, but on a world scale; greater resources for the World Bank and International Monetary Fund, with the developing countries being far more involved in the allocation of those resources; and special measures to help the very poorest countries, possibly including a moratorium.

Mr COLEMAN stressed the sheer global scale of the problem and warned of the possibly disastrous consequences in both the developing world and the industrialised nations of the West in the event of any major defaults. The political, social and economic fabric of many of the developing countries could be destroyed. The world economy could be thrown into complete disarray, with rampant protectionism and a return to isolationism in countries which had been "burned".

Although bankers tended, for competitive reasons, to be secretive about figures, and statistics varied, it could be fairly accurately stated that whereas in 1971 the developing countries owed approximately \$ 87 billion, mostly to governments of the industrialised West, by 1981 this figure had grown to more than \$ 524 billion, with the largest portion loaned by the Western banking community. If short term loans were taken into account, the figure could be as high as \$ 800 billion.

Thus the two key factors were the rapid growth of the debt during the 1970's and the fact that the new funds came largely from private commercial lenders as opposed to government or multilateral lending institutions.

The prime recipients of this new commercial lending had been the newly-industrialised countries of the Third World. But their high growth rates and the general good health of the world economy in the early 1970's had not been sustained into the 80's. The current global recession, poor demand for the LDC's commodity exports and extremely high interest rates charged by the commercial banks had not been predicted.

This led to a 'crisis of lending confidence' in the commercial banks, who became increasingly unwilling to lend. As a result the International Monetary Fund in the past two years had been called upon repeatedly to devise "rescue" packages for troubled LDC's, most notably Mexico and Brazil. The IMF, both because of its own limited resources and the massive scale of the developing countries' needs, had in turn asked the private international banks to participate in these bail-out schemes. Reluctantly, the international banks, most of them American, had cooperated, though this meant that they were, in effect, being 'held hostage' by the debtor nations.

Although the US administration was willing in some instances to help ease debt pressures, as with Brazil and Mexico, it believed that these countries would have to pursue tighter economic policies as was the case in the industrialised West. The Administration was not in favour of a generalised remedy of massive new transfers from the developed countries to the less developed ones. It believed in dealing with each case individually. The Congress generally shared this view, particularly in view of the United States' domestic budget deficits.

Sir David NICOLSON criticised political leadership in the Community and the United States for failing to recognise a crisis which had been a long time in the making. Since World War Two the world economy had become progressively more interdependent, with an extraordinary increase in international financing. Many countries had been living beyond their means, and the excessive borrowing that had now become evident was largely the result of balance of payments deficit spending.

Both the United States and the European Community were heavily involved and it was worth noting that of the 500 billion dollars loaned, some 300 billion was probably made up of loans from some 1000 private banks, many of them quite small. These banks were now desperately trying to extricate themselves from the visible risk, making the danger much greater for the 100 or so larger international banks involved.

If bad loans had to be written off, overall lending capacity was reduced quite disproportionately, maybe by ten times. There was also a great deal of inter-bank lending. These factors could result in a multiplying effect, and could set off a chain reaction.

So far efforts to prevent a real financial crisis had consisted of hectic improvisation of emergency credits. Now longer term solutions were needed. These must provide for reforms on both sides. The IMF's conditions for emergency credits to debtor countries tried to ensure that the general economic performance of the debtor countries was improved and growth sustained. These aims could only be achieved, however, if the creditor countries also adapted their own policies and were not overwhelmingly preoccupied with "reconquest of domestic markets" and "intolerable bilateral deficits".

Adequate adjustment of the Western economies implied massive new investment, and if this was to be financed without inflation, tax and public expenditure policies had to be reformed to raise the aggregate saving ratios of these economies. Also measures distorting resource allocations and constraining entrepreneurial initiative must be eliminated. This was becoming increasingly difficult, particularly in Europe, and there was an urgent need for some kind of common code.

The role of the IMF was central to any solution. Sir David welcomed the discussions now taking place to increase IMF quota subscriptions and its GAB (General Arrangements to Borrow). Since 1980 the use of IMF credits had doubled. Its outstanding loans to 33 countries now totalled 18 billion dollars. Its further resources were only about 33 billion dollars, of which 10 billion were already committed and another 14 billion virtually certain to be called for.

The IMF needed strengthening - with a lasting injection of capital and better management. The borrowing countries must scale down their ambitious development plans, and lenders must accept postponement of their claims, with the injection of further funds to keep the debtors alive.

It might be necessary to offer periods of grace to countries in trouble, perhaps five years deferment of repayments. This would cause difficulties for both the developed and the developing countries and make the North-South dialogue even more urgent and controversial. But there was no other alternative.

Europe had to play its role, alongside the United States, in seeking to stabilise the situation. It was vital therefore to develop a common European Community financial policy and voice. This could be achieved by further development of the European Monetary System, which Britain should join. The EMS should go on to provide a common fund, with member countries perhaps transferring 30% of their reserves to form it, taking in exchange a common currency unit, the ECU. This would permit the establishment of a common currency, and with it a proper management authority, and a system of defined joint responsibility of the central banks as lenders of last resort, together with a system for guaranteeing the Euro-dollar market. It was also necessary to agree on a combined target for total money supply.

If this could be achieved in Europe, with majority voting on economic policy in the Council of Ministers, the European Community and the United States would be in a better position, as the two pillars of the Western world, to cooperate fully in financial and economic matters and offer the kind of partnership and leadership that was expected of the world's two trading giants. But this depended above all on finding the necessary political will to agree.

Mr BONKER stressed the enormous consequences if a major default occurred and it was not handled responsibly. Certainly the financial system had not been managed responsibly during the previous 20 years.

The nub of the problem was LDCs and NICs, like Yugoslavia, borrowing heavily to fund an export-gearred economic plan and then failing to find markets. Everyone was trying to export. It was important, however, to resist protectionist measures. Ultimately the solution would lie in the revival of the world economy; but credit was a very important factor here in sustaining economic growth and it had to be soundly managed by governments and banks.

Mr WELSH asked for the US delegation's views on proposals made by the US Treasury Secretary Mr Donald Regan at a meeting of the Five Western Finance Ministers. His idea of setting up a new international instrument to act as a lender of last resort in the event of a major crisis caused by a defaulting country had aroused intense interest in Europe.

Mr PEASE said these proposals had been much better received in Europe than the United States. They were one of the possible options. Mr PEASE went on to stress the dangers of ignoring the economic facts of life, although he recognised the political factors which often made this necessary. He gave examples from the countries of Eastern Europe, where prices were artificially held down. In Poland the price of meat had not gone up in three years. These countries, and he cited particularly Hungary and Yugoslavia, were having to weigh the consequences of what the reaction would be to slower growth in wages and higher prices.

Mr SHUMWAY described the Regan proposal as something as a "trial balloon". It had been made at a time when Congress had other preoccupations. If there had been more time, the matter would have been debated more fully in the House.

Mr JONES felt that any proposal along the lines indicated by Mr Regan, would have a difficult time getting through Congress in the present climate.

Mr SEIBERLING conceded that he was not a banker. But he pointed out that when the economic system failed in the 1930s it was the lawyers who had to 'pick up the pieces.' It was his view that if we failed now to support the existing instruments to get the system out of trouble, the consequences could be even greater than in the 1930s. Bailing out was a small price to pay.

Mr BOYES said it was wrong to imply that the situation had come about almost by accident. Mr Coleman in his analysis had given no causes. But in fact it was high interest rates attracting dollars which caused strains in Third countries, making it necessary for developing countries to raise sums that were huge in proportion to their domestic economies. The causes therefore - basically tight money and high interest rates - were man-made and President REAGAN's economic policy had to take much of the blame.

Mr COLEMAN pointed out in reply that the alternative to tight money policies was world-wide hyper-inflation - though as legislators a number of members of the Congress delegation probably felt that the current high interest rates were perhaps too high.

Mr LANGE agreed with Mr PIQUET and Sir David NICOLSON in setting the problem in the context of the North-South dialogue and discussions on a new international economic order. Much turned upon what the relationship between the developed and developing countries would look like in the future. It was necessary that the economies of both sides should complement one another and that the industrialised world should assist the poorer nations. We wanted to sell to them and open up their markets but they needed money to buy. It would also be necessary to look to regearing production in the West to different types of goods, so that we were not in direct competition. These sort of measures would help create the sort of conditions in which these problems could be solved. It might also be necessary to eventually consider certain loans as grants. The important thing was to set the problem in a worldwide framework - as had been done in the Brandt Commission's North-South Report - to enable the necessary changes to take place.

Mr LANGE wanted the two delegations to go beyond analysis and to make concrete proposals. From the European side these should be along the lines already sketched out by Mr PIQUET and Sir David NICOLSON. If these ideas could be put together with proposals from the American delegation perhaps a common position could be reached on what could be done in the medium and long-term. Perhaps a joint report could be drawn up and presented at the next meeting of the two delegations.

Mr LANTOS said plans had already been made to form a preparatory committee which would work along the lines suggested by Mr LANGE.

In reply to Mr BOYES, he said it was not possible to simply blame the multinationals and high interest rates. The problem had been developing for some time, but when it first emerged as a major phenomenon as a result of the oil price rises of the early 1970s, we had simply postponed the problem by recycling funds. It should be pointed out, though, that without recycling many countries would have gone bankrupt. Mr LANTOS pointed out that the OPEC countries had been wise enough to place their money with governments or the big international banks - though they had subsequently involved the smaller less reliable banks.

Mr SEGRE agreed in general with the analysis that had been made of the world trading situation, with almost all countries striving to reduce their imports and increase exports. He disagreed however that the effects of recession and contraction in world trade were less severe in the Communist countries than in the Western democracies. It was sufficient to look at Poland to see that this was not so.

Mr THOMAS wondered whether there would be any common view on when loans should be changed to grants. He asked Sir David NICOLSON if he would be prepared to make a specific proposal on this.

Mr AIGNER was particularly concerned about the state of the Euro-dollar market. A recent World Bank report had given extremely worrying figures about the billions of Euro-dollars currently estimated to be floating around in the world money markets. If there was no way of effectively controlling these funds, this phenomenon posed a major threat. He wondered if the American side could confirm the World Bank figures.

Mr BLUMENFELD was also concerned about the Euro-dollar market which had emerged as a major problem in the wake of the recycling. He wondered whether any international instrument or machinery would be capable of controlling this market?

He agreed with earlier speakers that one of the reasons Third countries could not repay their debts was because everyone was trying to cut back on imports. And this, despite the fact that we had given so many credits to help export capital equipment to Third countries.

He shared Sir David NICOLSON's view that a political decision was needed. The United States and Europe should work together on this. A working party composed of members of the two delegations could be of help here.

Mr LANGE wanted to make clear that he was not proposing that debts be written off. What he had said was that we might be forced to this. His aim was to prevent this coming about. He added that the situation had not been helped by attaching political strings to development aid. It was sufficient to note that virtually no progress had been made in the battle against world hunger. He also observed that the orientation of many development aid programmes had been wrong.

Mr PICKLE said that a part of the solution was putting our own house in order. We all needed to learn to live within our own domestic budgets. He pointed out that Social Security payments were now a huge element in those budgets - in the case of the United States they amounted to about a quarter of the Federal budget.

Mr WELSH felt the dangers now being faced by the world banking system were probably a more serious problem than threats to the world's open trading system. In searching for remedies, however, it was necessary to move on from general analysis towards making specific proposals.

Mr GAUTIER came back to the European dimension and the development of the EMS. He pointed out that extremely slow progress, if any, was being made in coordinating the economic policies of Community member states. Europe was not yet united enough to create the instruments that would be needed to help solve the problem - for instance a European bank funded by transfers from other central banks. He also felt there was a degree of hypocrisy in statements about keeping world markets open and willingness to pay higher prices for certain products.

Mr PEASE hoped it would not be necessary to convert loans to grants. This would send a wrong signal to certain countries. He felt that much opinion within Congress and the Administration was against bailing out the banks - there was a feeling that they had brought these difficulties on themselves. He suggested that there was even a temptation to permit a little defaulting to occur in order to teach the banks a lesson. On the question of exports from Third countries, he pointed out that this posed a dilemma for Congressmen since increased imports often meant jobs being lost at home. In this connection Mr Pease referred to the Caribbean Basin Initiative. This sort of scheme could only go forward in tandem with workers' retraining programmes in the United States.

Mr GIBBONS said it was also a question of Third countries putting their houses in order. He gave Mexico as an example. Perhaps we were spending too much time blaming ourselves for the crisis. Perhaps we were too prepared to prop up poor management in Third countries and the banks. It might be that in the end a few banks might have to fail.

Mr AIGNER returned to his earlier question on the effect of the Euro-dollar market. He also pointed out that a lot of electors in the industrialised nations were beginning to question support for developing countries whose defence expenditure was in excess of their debt. He also referred to the huge loans which had been made to Warsaw Pact countries.

Mr BOYES came back to his earlier point about the causes of the problem. It was not possible to blame it all on the energy crisis and other unexpected factors. The situation was man-made.

Mr LANTOS said he also believed in causality, not accidents. But he resented the views of some of the Euro left and the LDC's that the USA was the Great Devil behind it all. The United States just could not accept this. It was a fact that the United States was very pre-occupied with its own economic domestic concerns. But one of the reasons why the United States was not so sympathetic to the problems of the LDC's was that they were so overtly anti-American. In this connection he cited the work of Mrs Kirkpatrick at the United Nations in standing up for the United States.

Mrs VEIL felt that it was necessary to recognise that when the United States and Europe tried to help lame ducks, they were acting out of self-interest, in order to keep their clients and their markets. We had to do what was necessary to prevent bankruptcies occurring. Political and economic judgements were very much intertwined in examining the international debt problem. One of the political aspects that needed to be brought out was that both Europe and the United States wanted to see democratic values preserved and enhanced. Both of our societies shared the same democratic ideals and aspirations and we should be ready to stand together to defend them. Perhaps there was too frequently a tendency in Europe to accuse the United States. Certainly we were not all members of the same society. But we were closely linked by our economic and political interests. One factor that could help Europe act more in concert with the United States would be a strengthening of the European Monetary System. At present there was no European currency to match the international role of the dollar. If Europe could work towards this it would help to promote greater international stability.

Mr SEIBERLING commented on the huge size of defence budgets and the large pool of talented and trained manpower employed in the defence sector. This represented an important diversion of capital and labour and some thought should be given to reducing defence spending.

Mr. MOREAU said that a variety of policies had been tried out but had failed to produce results. The dangers of a collapse in the international banking system were considerable. And it seemed that governments were not capable of putting the brakes on. It was therefore necessary to establish responsibilities for managing the crisis and to act together in a concerted fashion together with the IMF. It was also necessary to explain to our electors why we were taking certain measures. If we did not take appropriate measures, the situation would simply get worse and relations between the industrialised countries and the developing countries would become even more strained. It was also important not to let the current banking and financial crisis blind us to the difficulties faced in certain parts of the world. We could help to achieve progress in other parts of the world. We should therefore look towards agreeing a common EC-US stand on development policy. There was a very real prospect that in five years time the debt problem would be even greater and poor countries' prospects of development smaller. This should be kept very much in mind as the Community began negotiations for renewal of the Lomé Convention.

Mr. THOMAS asked Mr. BOYES what specific proposals he would make to solve the world debt problem.

Mr. BROK said the whole situation pointed to the need for fundamental industrial restructuring at home. European nations were running deficits and our budgets could no longer meet the commitments we had undertaken. At one time free trade had served us all well. But now there were increasing protectionist pressure everywhere - even from the entrepreneurs. This made things difficult for the developing world. Formerly we had encouraged the developing countries to industrialize - now we were keeping their exports out. It should also be pointed out, though, that not all the blame could be placed on the banking system - the oligarchies at the head of many developing countries also had some responsibility to bear.

Mr SHUMWAY asserted that for his government the economic recovery of the United States was the top priority. There was a massive deficit in the budget which had to be brought into balance. But there could be no recovery in the United States without economic health in Europe. Immense efforts were being made in the United States and there had to be some understanding for the difficulties faced by America. It was a hard thing to say, but the United States could not continue for ever to bail out other nations. The United States was not a bottomless pit.

Mr GAUTIER spoke of the difficulties of reconciling our political beliefs about what should be done on the international scene with pressures from constituents. It was vital to explain matters frankly to the electorate.

Sir David NICOLSON reaffirmed his earlier conclusion that what was needed above all was the political will to find solutions.

Mr COLEMAN hoped that after taking a broad international perspective at such meeting as this, delegates did not behave in a parochial way when the debt problem caused a crisis at home. The Congressional delegation would go back to the United States Administration requesting further clarification of the United States position and policies and stressing that time was running short.

Mr PIQUET reaffirmed his concern for the poorest countries. It was necessary to think in terms of a moratorium for these countries. We also needed to develop a better strategy on food aid and to reach the 0.7% target set by the United Nations for development spending. It was important not to put all the debtor countries in one basket - there were different kinds of indebtedment. He hoped that when the joint committee got to work, perhaps taking up a number of Sir David Nicolson's ideas, that the debt problem would be seen very much in the context of the North-South dialogue.

Monday, 17 January 1983, 15.45-18.05 hrs
Tuesday, 18 January 1983, 09.05-09.30 hrs
Working Session on Political questions

Exchange of views on East West relations and their implications for trade

Mr MOREAU introduced the discussion by indicating some of the major issues over which the Community and the United States had disagreed during 1982 - making it a year of very great misunderstanding between the two Atlantic partners. The two sides had been at odds over the Soviet gas pipeline, security policy in Europe, and the GATT talks; on foreign policy they differed in their perceptions of the situation in the Middle East, and Central America, as well as Poland and Afghanistan.

Differences of view on these issues had been exacerbated by continuing discord over trade policies, most notably perhaps over the question of export credits and subsidies.

This was happening during a period when all nations were having to reappraise carefully their own particular economic situation and to address themselves to the problem of major economic restructuring. In these circumstances it was easy to be tempted to return to protectionism and isolationism. The great danger, however, was that we might all find ourselves driven to take protectionist measures without really wanting to do so.

It was vital therefore to try to reconcile differences over economic policies and to work towards a common view on East-West trade. Each side had to be prepared to take far greater account of the other's views and to engage in consultation.

The classic example of failure to do this had been the American imposition of sanctions to prevent deliveries for the construction of the Soviet gas-pipeline: There had been no hint of this at the Versailles Summit; the sanctions were based on false presumptions about the extra territorial jurisdiction of American laws; they were imposed with retroactive effect; and they were a highly inappropriate measure since they affected production and employment in Europe, which was suffering the same economic strains as the United States.

While it was true that there was not always a single European viewpoint on major issues, it was possible to have an effective trans-Atlantic dialogue. This should be the aim for 1983, particularly with regard to that issue still very much on the agenda - the question of disarmament and security in Europe.

Mr PEASE agreed that 1982 had been one of the most turbulent years in the history of the Atlantic Community. Tension developed because of the unresolved deployment of INF weapons, the controversy about burden sharing, the common dilemma of stagnant economies which breed protectionism and the pipeline dispute. At the heart of the latter disagreement were differences over the course of East-West relations and the role of trade within that relationship.

But there was now an opportunity to shape a common policy on East-West trade. Secretary of State George SCHULTZ was making efforts to devise a better strategy on trade with the Soviet Union and was trying to eliminate the confusion in American policy.

In recent weeks the United States and its allies had moved toward agreement to study and devise a policy to prevent Western trade from strengthening Soviet military capability. In Paris, six areas to be discussed were outlined by Secretary Shultz and Foreign Minister Claude Cheysson:

- The member countries will negotiate on the possibility of expanding the activities of Cocom and accelerating its decision-making;
- Members of Cocom will examine the question of whether oil and gas technology directly strengthen Soviet military capability;
- The OECD countries will pursue a study, originally called for at last year's Versailles summit, to monitor the flow of credit and trade to the Soviet Union;
- These same nations will undertake a study of energy alternatives to lessen the chances of increased dependency on Soviet natural gas;
- The OECD members will also examine ways to prevent the Soviet Union from receiving subsidies and preferential treatment from the West;

- And, finally, the members of NATO will work to improve consultations and coordination of policy.

However, reaching agreement on these points would demand much understanding and work. United States and Europe continued to have different concepts of the role of trade in East-West relations. Because of geography and history Europeans had different views of the Soviet Union and détente. Unlike the Americans, they never perceived détente primarily in military terms. For Europeans détente also offered expanded commercial, political and even personal ties. Their experience had taught them that economic sanctions could not have much impact on Soviet behaviour in Poland or Afghanistan. And many European observers believed that an economically troubled Soviet Union might be more unpredictable and aggressive than a stable one.

Mr PEASE felt that particular attention should be paid to Cocom, the coordinating committee which seeks to regulate the flow of military related technology to the Soviet Union. Because of its access to Western technology the Soviet Union had made important gains in computer and micro electronic technology as well as designs for both strategic and tactical aircraft. At present, Cocom members had little disagreement about halting the flow of technology directly related to the military, but the Western powers differed over the issue of indirectly related technology. Mr PEASE felt it was important to obtain agreement on greater restrictions if the West wished to slow the rate of Soviet technological growth in the military sphere.

In this area, as in all others relating to East-West trade, the answer was to improve consultation and cooperation across the Atlantic. If, for instance, there had been better consultation on energy alternatives in the late 1970's and early 1980's, the pipeline controversy might not have arisen.

A number of studies, some initiated by Secretary of State Schultz, are now being undertaken on all of these matters. But if a new concerted policy on East-West trade was to emerge it was necessary that concrete proposals and action should eventually result from these studies.

Mr HAAGERUP stressed the way in which areas of disagreement spilled over into one another: Differences over trade and foreign policy affected discussion on security and arms control. There were divergent views on the planned deployment in Europe this year of INF weapons and it remained to be seen what might emerge when the INF talks resumed in Geneva. Mr HAAGERUP pointed out that when President REAGAN first proposed his "zero option" in November 1981, the move was generally welcomed in Europe. However the zero option had not removed opposition in Europe to the deployment of Pershing II and ground launched Cruise missiles. At the same time it should be noted that, Europeans in general ruled out Soviet proposals that British and French intermediate range missiles should also figure in any trade off against the Soviet SS 20 missile.

Mr HAAGERUP suggested that it would not be possible for the American Administration to maintain indefinitely its all-or-nothing approach to the INF deployment question. Now might be the moment to start looking for a more limited first-phase agreement on this issue. The visit to Europe at the end of the month by US Vice-President BUSH, might help in working towards a more flexible negotiating position.

With regard to the controversial dismissal of Mr Eugene Rostow as head of the United States' Arms Control and Disarmament Agency, Mr HAAGERUP was convinced that this did not mean a major shift in US policy to a more hardline approach, any more than the replacement of General HAIG by Mr Schultz had meant any significant change in the direction of US foreign policy.

In conclusion Mr HAAGERUP referred to his own report on European Political Cooperation and European Security which had been adopted by 133 for, 50 against and 19 abstentions by the European Parliament the previous week. It was significant that the report which took a clear pro-Atlantic position had found supporters in all of the six major political groups in the European Parliament. Point 5 of the resolution had urged that a more effective coordination take place between the consultations in EPC and the Atlantic Council when political and economic subjects touching on matters related to peace and European security were under discussion.

Mr BONKER addressed himself specifically to the question of the use of sanctions by the American Administration to achieve some of its human rights and foreign policy objectives. Such policies, he pointed out, were undoubtedly controversial - within Congress, within the Administration, and within the business community. The United States, for instance, had banned sales of arms to Libya, which had been identified as a terrorist nation; this had meant the loss of a major Boeing contract and consequent effect on jobs. On the whole, the American business community was against the use of trade sanctions. But they did recognise that limits must be set in turning over high technology to the Soviet Union. It was difficult to get the balance right and such policies were difficult to administer. Nor was it easy to explain to American interest groups the value of such policies. For instance, in the case of the grain embargo imposed by the United States, other nations had been prepared to sell to the Soviets and American farmers had simply lost a market.

Nonetheless it seemed that we would always come back to the possibility of imposing sanctions in seeking to achieve certain foreign policy objectives. As a result, however, of the experience of the past two years, the United States would probably be reluctant to go it alone in the future. If the Americans wanted to adopt get-tough policies with the Soviets they would try to do so in concert with the Europeans.

Lord BETHELL felt that an important new factor in East-West relations could be the change in the Soviet leadership. This might provide new opportunities since Soviet policy sometimes took new directions when the party Secretary-General was replaced. Certainly in the period leading up to Mr Brezhnev's death there had been evidence of a degree of paralysis in Soviet policy making; this could for instance explain the reasons for Soviet inactivity in the Lebanon.

It was important that in East-West relations human rights issues were not glossed over. The human rights provisions had been an important part of the Helsinki Final Act. Human rights was not simply a moral issue, it was political as well. Academician Sakharov had stated that our aim should be to make human rights a political problem for the violating country. So we should not ignore developments like the drastic reduction in the number of Soviet jews who have been allowed to emigrate in 1982 as compared with 1980. It was a duty to our constituents and our response to political pressures to keep such issues at the forefront of East-West discussions and

to keep raising these matters at Western summit meetings, alongside such issues as trade and arms control.

Lord BETHELL had therefore been pleased to hear that the American delegation, on their tour of several East bloc countries en route to Athens, had, while in the Soviet Union, made a point of meeting certain refuseniks and Mrs Elena Bonner.

In conclusion, Lord BETHELL echoed previous speakers in calling for closer consultation and preparation amongst Western nations so that they could act together when crises arose. It had too often been the case that the West was caught reacting to events in some disarray, rather than anticipating events. The West was still a long way from developing a coherent strategy towards Eastern Europe and abandoning tendencies to act unilaterally (as had been the case over the US grain embargo and the pipeline).

Mr AIGNER alluded to the difficulties the Community sometimes had in speaking with one voice on foreign policy issues. European political cooperation only existed because the Common Market had been created and it depended on Europe's strength as an economic power. But political cooperation was still at an early stage of development and there was no common position on many major issues. Europe still very much needed the protective influence of the United States. In many respects, Mr AIGNER said, he shared American views about the Soviets. He had, for instance, been against construction of the pipeline. Problems had arisen over this issue because the United States had begun to exert pressure once both sides had taken a position. And Europe was in a different position from the United States vis-à-vis the USSR - Europe was much more dependent on exports to the USSR than was the United States. The Americans also failed to appreciate that it was not easy for the Community to coordinate its position and follow the United States on something like an embargo; the Community had not really developed sufficiently its instruments for coordinating policy at this level.

With regard to the appointment of Mr ANDROPOV as Mr BREZHNEV's successor, Mr AIGNER recognised that the new Soviet leader was an intelligent man who might be open to discussion, but it should not be forgotten that he was also a hard man, who had been the Soviet Union's ambassador to Budapest during the repression of the Hungarian uprising in 1956 and that until

May 1982 he had been head of the Committee for State Security (KGB) which it now appeared was behind the plot to assassinate the Pope.

Mr RIEGER stressed the significance of the pipeline affair as a lesson in how the West should not solve crises. A greater transatlantic flow of information was necessary and a greater appreciation of each other's respective positions. The United States, for instance, should realise that in much of Europe trade with the Soviet Union did not have a political dimension. In a sense the Helsinki Final Act had recognised that fact. The Final Act concerned not just questions of human rights but also questions of trade relations. In this connection he recalled the European Parliament's recent resolution on relations between the European Community and the East European State-trading countries and the CMEA (COMECON). This recognised the reality and the necessity of trade relations between both parts of Europe, without ignoring the political dimension. It was also important not to forget the Community's preferential trade links with Yugoslavia and the special relationship between the Federal Republic of Germany and the German Democratic Republic.

Mr BLUMENFELD suggested that it was now time to put the pipeline problem behind us. That issue was history. The question now was whether we could influence Soviet policy and strategy. The answer to this question was no. We had never been able to. Sanctions in general had no effect. Experience since World War II had shown that almost without exception sanctions never worked. In this connection Mr BLUMENFELD cited the European Parliament's report on sanctions drawn up by Mr SEELEER on behalf of the Committee on External Economic Relations.

We therefore had to ask ourselves again the question we had been asking at EP-Congress meetings and NATO Assembly meetings for the previous 15 years: What, if anything, could influence the Soviets?

The answer might lie with COCOM if we could agree on its application and if we had the political will to do so. There might also be scope for developing a common strategy on credits and interest rates to the East bloc - up to now the West had been too generous.

The European Parliament and the US Congress could perhaps put their heads together on this matter with a view to adoption in both houses of a joint resolution; that might be one way of making an impression on our own governments and certainly on the Soviet Government.

Mr GIBBONS said he shared Mr BLUMENFELD's views and agreed with his proposal. It might also be worth looking at what could be done through the GATT mechanism. At all events the question of a joint approach should be kept very much on our agenda.

Mr LANGE said that transatlantic conflicts had continued to arise over the years for the same basic reason: Europe could not accept that the United States should assume primacy in the Atlantic Alliance forever. We had to treat one another as equal partners. The United States must consult more and dictate less. It was no good just complaining about each others' actions - certain political realities had to be recognised: For instance many European countries did not have their own energy resources; and with regard to Afghanistan it had to be recognised that this country had long figured in Soviet plans.

Mr WELSH pointed out that Eastern Europe and the Soviet Union was one of the last great consumption areas where the West could hope to sell its goods. The aim should be to open their markets up. Credit should be used to boost sales of American and European consumer goods. It was clear that the old barter system of trade was no good but there might be a possibility of working out a trading code within the OECD. He agreed with other speakers that sanctions had little if any effect, except possibly to satisfy public opinion.

Mr BROK said that in general he took the same view on sanctions. At the same time it should not be forgotten that we often showed excessive generosity to the Eastern bloc: Sometimes the East European countries were able to obtain better terms of credit than the developing countries. Opinions varied in Europe as to how to approach the East. And there was the phenomenon of companies trying to outdo one another as they competed for business in Eastern Europe.

He also concurred with other speakers in stressing the importance of EC-US consultation and preparation rather than reaction after the event.

Mr SEGRE was also against the use of sanctions. He too recalled that they invariably never worked and harked back to the case of Italy's pre war invasion of Abyssinia and the sanctions imposed by the League of Nations. His main concern however, with regard to transatlantic relations was that they were failing to manage and concert policy to deal with economic crises. This was simply not being done.

Mrs VEIL did not wish to be too dismissive of the value of sanctions. The European Parliament had on occasion called for the imposition of sanctions. Certainly we should not have any illusions about the effect they might have, but nor should we overlook the fact that they often had a moral and political value.

Mr RIPA DI MEANA shared Mrs VEIL's view about the moral effect of sanctions.

We had to come to terms with the situation as it was in the wake of the Helsinki Final Act and to recognise that conditions in the East have changed considerably since the harsh economic times of the early years of Communist experiment. There was a theory, even subscribed to by financiers and diplomats, that the one way of influencing the East was by increased trade and by changing consumer habits in Eastern Europe. There were also the Sonnenfeldt theories, these too supported by diplomats, although these seemed to be somewhat in decline.

Mr BONKER (reopening the debate on Tuesday morning) gave a brief summary of the main points made by speakers the previous afternoon.

Mr FEASE in seeking to draw conclusions from the discussion, focussed on the question of sanctions. Clearly both sides were free to take unilateral action if they wished, but the pipeline issue had shown how important it was to formulate common policies on the application of sanctions. In general, the conclusion seemed to be that sanctions did not work. But there was also a feeling that sanctions concerning military equipment could be effective - it should perhaps be possible to coordinate policy in this area within NATO. It was all very well, however, to say that we had to act together, but then still find ourselves reacting differently next time a crisis arose. It would be important therefore to try to establish some ground rules for imposing sanctions and to agree not to impose sanctions without consulting one another.

Tuesday, 18 January 1983

Trade questions

Mr THOMAS outlined some of the relevant issues in international agricultural trade and warned that there was a risk of a trade war in this sector, unless the US and the EC were more successful in defending the free trade system.

American farmers were fundamentally in favour of free trade in agricultural produce and fair conditions of competition on foreign markets. They also wanted to see a more powerful GATT and the removal of non-tariff barriers to trade and of subsidies.

The question of subsidies was at the centre of the current EC/US negotiations. The US was not aiming at the abolition of the CAP, but wished to eliminate state-aided surplus production, which, through further subsidies, found its way onto the world market and created distortions of competition, which were working to the increasing disadvantage of American farmers.

American farmers were urging the government to act quickly to eliminate such disadvantages. If that could not be achieved with the EC at the negotiating table, the US Government would soon be compelled to take retaliatory action in the form of export subsidies. It was therefore imperative for the European Parliament and the American Congress to exert increased pressure on their respective governments to resist protectionism and preserve free trade.

Mr GAUTIER observed that a restatement by the EC or the US of the recriminations surrounding agricultural trade was not conducive to future discussions. Solutions could be reached only in serious, depoliticized talks, in which the situation for each individual product would have to be considered separately. Individual solutions would have to be harmonized in corresponding programmes, but these could not be allowed to undermine the common agricultural policy.

Mr de la GARZA emphasized that in this question both the American and the European sides had to reconcile their general political interests with the wishes of their respective electorates. However, following political pressure from the farmers, practical results in the effort to resolve the agricultural trade disputes would soon have to be announced.

Mr COLEMAN said that, in the past, American agricultural production had been geared to the needs of the market, while that of the EC had been dictated by the current guide prices. This was the cause of the present problems of overproduction and distortions of competition, to which solutions, were urgently required.

Mr GIBBONS observed that the problems mentioned had been discussed in the same way by the two delegations for many years, and no solutions had been reached. Attempts should be made to devise rules within the framework of GATT in order rapidly to eliminate the recurrent trade crises.

Mr AIGNER agreed that the present problems were not new, but solutions could only be found in cooperation and not in conflict. He saw the EC's planned co-responsibility levy as one possibility for eliminating surplus production. Direct price reductions would not necessarily lead to a fall in production, but would instead result in a shift from small- to large-scale production. In general, both the US and the EC should show more understanding for each other's problems.

Mr WELSH said that the European Parliament's attitude towards the shaping of agricultural policy was not entirely consistent. Nevertheless, it was possible to find solutions to surplus production, as the EC had proved with its special product agreements, for instance with New Zealand.

Mr GAUTIER called for separate solutions for individual products and a strict observance of the GATT rules, since otherwise the present crisis would be exacerbated.

Mr HUCKABY stressed that there was only a short time left for reaching solutions. American farmers wished to see progress on the outstanding agricultural trade questions in the course of this year.

Mrs GREDEL adjourned the meeting at 10.30 a.m.

Tuesday, 18 January 1983, 3.15 - 5.45 p.m.

Working session - trade questions (continued)

Mr FRENZEL summarized the different positions of the US and the EC at the GATT Ministerial meeting of November 1982 and outlined the main issues discussed there. These included the struggle against protectionism: the commitments made at the meeting in this connection would have to stand the test of trading realities.

With regard to the safeguard clause, some progress was made, although not enough to satisfy the US. The central problem of selectivity remained unresolved, since the US and the majority of the participating countries rejected selectivity as advocated by the EC. A possible compromise formula involving the application of selectivity in the context of the consent procedure was rejected by the EC and the developing countries alike.

Measures were agreed to accelerate the procedure for the settlement of disputes and to give a more active role to the GATT Secretariat. The discussions on agriculture predictably occupied a central place at the meeting. Although the EC, in opposition to all the other countries, blocked progress in the elimination of subsidies and unfair trading practices, the decision to set up a committee on agricultural trade could in the final analysis be regarded as a success for the US. This committee would thoroughly examine all unresolved questions.

With regard to the services sector, the Community supported the US in its call for studies on the possible incorporation of this sector into GATT. Opposition to this proposal came mainly from a number of developing countries, which were worried about an increase in obligations in this rapidly expanding sector.

Questions of advanced technology were not included in the final declaration of the ministerial meeting, but it could safely be assumed that they would be discussed at a future meeting of the GATT Council.

In conclusion it was observed that the results of the GATT Ministerial meeting were very modest, given the existing world economic problems. Despite the increased protectionist pressures, free trade could not be considered as a lost cause in the US. However, GATT was now the object of a tug of war, and immense efforts from its contracting parties would be required, if it was to be saved.

Mr WELSH said it was worth looking back to the last occasion when the two delegations had met. At that meeting the main issues had been: steel, the pipeline and trade with Eastern Europe, trade with Japan, the problems of the NICs, transatlantic communications and consultations.

The steel issue had been successfully resolved - although perhaps only temporarily. At all events, it was off the agenda for the present. Germany had been very helpful in bringing about a solution.

The pipeline row had been defused. So both the United States and the Community were now in a position to review their stands on East-West trade in general.

With regard to Japan, it was to be noted that the Japanese had come away almost unscathed from the GATT conference. It might be time therefore for Europe and the United States to take another hard look at Japan's trading practices.

The question of the NICs and their indebtedness were still very much on the agenda.

Communications and consultations across the Atlantic had improved. The work of Secretary of State SCHULTZ had been very important in this regard.

So the success rate was two and a half out of five which could not be considered too bad.

Turning to the GATT Ministerial meeting, Mr WELSH said it was necessary to put the record straight on certain points. It had, for instance, been stated that there had been insufficient preparation for the meeting. This was nonsense. It had also been stated that the Community had blocked progress at every turn. This was not true either: The Community was prepared to negotiate and talk seriously on certain issues, just as soon as other countries were.

At the end of the GATT meeting, from a European point of view, there had been satisfaction that the Community had held together and covered its main positions, and that the GATT remained intact.

It was open to question, however, for how long GATT would remain intact. Mr WELSH said Europe had been shocked by recent protectionist moves in the United States. It was all very well to accuse the Community. But it had to be pointed out that the United States also had a protected agricultural system. And just how easy was it to sell textiles to the United States? It was worth noting also that the Community ran a trade deficit with both the United States and Japan.

Then there were the various 'Buy American' campaigns and the Domestic Content Bill, which was a very hypocritical measure. There was also the prospect of reciprocity legislation, which, Mr WELSH pointed out, simply would not work. There was no such thing as 'fair trade' - except in theory.

In conclusion, Mr WELSH said, the important thing was not to give in to the short term demands of electors. The duty of elected representatives was to lead, not follow, public opinion. And it should not be forgotten that the effect of protectionism was to deny people the right to choose.

Mr GIUMMARRA summarized the discussion relating more specifically to agriculture. He picked out many signs of the aggressive American attitude, an attitude which aimed to lay all the problems of American agriculture at the door of the common agricultural policy. Mr GIUMMARRA declared that the United States were endeavouring, under a cloak of liberalism, to establish the supremacy of the stronger producers. He also emphasized certain aspects which could help to defuse some of the existing problems.

Firstly, he stressed the great structural differences between European and American agriculture and the immense difference in the size of farms on the two continents. He denied that the CAP was a static policy, since the Commission, the European Parliament and the Council had all tried to adapt it to the various market situations. He drew attention to measures such as the co-responsibility levy, production quotas, the reduction in the guarantee. Moreover, the structures sector had in recent years seen a reduction of approximately 300,000 hectares a year as a result of the implementation of the Community's structural policy.

He then pointed out that agricultural income had fallen by about 12% in real terms since 1978. Another argument put forward by the Americans was the cost of the CAP: it was difficult to compare this with US expenditure, since, in addition to federal outlay, direct or indirect expenditure by the individual states would have to be considered. The ratio of budget expenditure to the

added value of agricultural production in the period from 1976 to 1978 was 39.2% in the case of the EC and 37.2% for the US. This proved that the support given was on the same scale.

Mr GIUMMARRA made some observations on the American agricultural system. He explained that the 1982 Farm Bill retained the target price and included a programme for the dairy sector and a sugar support programme. Moreover, provision was made for import subsidies, aid for the marketing of agricultural produce, guarantees and insurance on import credits, large-scale food aid programmes and bilateral compensation agreements. All these measures showed that American agriculture could just as legitimately be regarded as an assisted sector as European agriculture.

He believed that attempts were being made to blame the common agricultural policy for the difficulties currently facing American farmers. However, these difficulties stemmed from two series of factors:

- from external factors, since there was greater competition within the agri-foodstuffs sector, due in part to the fact that the United States - as a result of political decisions such as the embargo - had lost credibility as a reliable supplier of agricultural products. Even Mr de la GARZA, the chairman of the Congressional Committee on Agriculture, had already expressed this opinion;
- from internal factors, which applied equally to European farmers: the increase in production costs, interest rates, the world economic situation, all these, together with the high exchange rate for the dollar, had resulted in a decline in American exports.

In conclusion, Mr GIUMMARRA observed that the retention of the CAP was fundamental to the stability of a strong Europe, which the United States needed, and he did not therefore see the need to call the European agricultural system into question. He did, however, support Mr GAUTIER's proposal to confine more detailed discussions to the most serious problems.

Mr FLORIO spoke on the implications of the GATT Ministerial meeting and emphasized that the US was not satisfied with the results, although they had to be seen in the context of the world slump and the increasingly aggressive competition on world markets coupled with growing protectionist tendencies.

That the market share of obsolete industries, no longer able to compete, should decline, was acceptable under certain circumstances. However, a situation in which competitive industries - such as the American pharmaceutical industry - lost their market share through unfair competition from other countries, could not be tolerated and forced the US to retaliate. Consequently, the American market should remain closed to Japanese computer firms for as long as American firms were denied access to the Japanese market.

The same applied to the services sector, where US competitiveness was being impeded by the trade barriers put up by other countries. The US was currently preparing measures to close the American market to those countries which were denying American service enterprises access to their markets. For as long as no international agreements could be reached in this field, the US had no choice but to protect its undertakings with such action and endeavour to defend free trade in bilateral negotiations.

Mr GLINNE raised the question of the DISC¹ Programme which the United States had been using to encourage exports for some 15 years. It was his understanding that the system was to be dismantled since it was held to be incompatible with GATT rules. Was this in fact the case?

Mr LANGE stressed the need to look more closely at the nature of the trade flows between the industrialized countries and between the industrialized countries and the Third World, to try to ensure that production was better matched to requirements. This might prevent production of surpluses for which there was no market.

Mr GAUTIER raised the issue of data-processing - a field in which American companies had become very active in Europe. There was considerable concern about safeguards to ensure that personal details being stored by computer were not made available to unauthorized persons. Data-processing was also a good example of an industry which was helping to widen the United States trade surplus with Europe. Ways had to be found of narrowing the gap. This was not helped in many instances by American legislation; there were, for instance, laws designed to ensure that the United States government bought mainly American-made armaments.

Mr PEASE defended the domestic content legislation. Certainly it had been passed because an increasing number of constituents were being put out of work.

¹ Domestic International Sales Corporations.

As long as countries like Japan were not open to foreign trade, many Congressmen would feel that they had to vote for measures like the Domestic Content Bill. He pointed out that restrictions in Community countries on Japanese imports of cars were very similar in intention to the Domestic Content Bill. Mr PEASE added that he certainly could not equate free trade with free speech.

Mr JONES said that as far as the United States was concerned future patterns of trade would depend very much on what happened during the next two years. During this period it should become clear whether the United States would in fact become more protectionist or not.

Mr FRENZEL said the United States would prefer to preserve the Disc System. If that was not possible something would be found that did conform to GATT rules. In reply to Mr WELSH, he said that it was not true that at the GATT talks the Americans had been much more intent on taking issue with the Community rather than the Japanese.

Mr de la GARZA maintained that problems were often approached on the basis of impressions and in the absence of genuine in-depth knowledge. American agricultural policy aimed to develop trade flows in both directions and this could only be achieved with realistic prices. For instance, a system of importation periods was used for certain products in order to afford protection at the production stage. He gave the example of melons, on which a 35% customs duty was levied during the harvest in California, but for which importation - normally from Mexico - was duty-free for a large part of the year.

American agriculture could benefit from export credits which were dictated principally by humanitarian or strategic considerations.

Mr THOMAS declared that the situation for American farmers had now become intolerable. They wanted total freedom of trade, but that did not exist at the present time. They were therefore calling on the American Government to take the firmest possible line. Furthermore, the discussions within GATT had shown that the European Community was isolated and that a majority of the other countries supported the American way of thinking.

Mr THOMAS said that the American Government was ready to take up the challenge, as illustrated by the conclusion of an agreement with Egypt for the supply of one million tons of wheat flour with a refund on exportation.

Mr THOMAS pointed out that the European approach of separate discussions for each product could be of value only in the short term. In reality, certain European products were permanently in surplus, and it was therefore necessary to review the common agricultural policy as a whole.

Mr SIEBERLING said he expected direct content legislation to be reintroduced in Congress and it was very likely it would be passed. The legislation could be on the statute book in little more than a year.

Mr THOMAS agreed that it was very likely that Domestic Content legislation would go through.

Mr von WOGAU said that in that case the Americans must expect some reaction from Europe, which would probably mean a campaign to buy European. That would not really be the way forward. It should be pointed out to Americans that a very large number of jobs depend on exports to the Community. Those jobs would be at risk.

Mr GIBBONS also agreed that the Domestic Content Bill was not dead and might be reintroduced. It should be recalled, however, that the bill, as passed, was amended and thereby substantially weakened.

Exchange of views on miscellaneous matters

Disarmament

Mr BOYES returned to the question of arms control. He did not want his views to be seen as straightforward anti-Americanism. It was simply that many people in Europe questioned the wisdom of the United States' nuclear policy. Confusion had also been caused in Europe by the dismissal of Mr ROSTOW as Head of the US Arms Control and Disarmament Agency. Why exactly had he been sacked? Did this represent a new shift to the right in American policy? Could it perhaps be that Mr ROSTOW actually started to negotiate, to talk seriously about arms control? Mr BOYES was also concerned about the role that Senator Jesse HELMS was said to have played in Mr ROSTOW's dismissal.

With regard to the "zero option", Mr BOYES said many in Europe did not like the apparent inflexibility of this policy? It seemed that even the United States' chief negotiator, Mr NITZE, wanted to relax the "zero

option". It was clear why many Europeans were opposed to the deployment of cruise missiles. They simply feared the concept of a limited European war. And Secretary of State SCHULTZ had not been prepared to confirm that they would be under anything other than sole US control. Deployment of the Pershing II would contribute further to lowering the European nuclear threshold.

Mr LANTOS said he had been a supporter of a nuclear freeze. And the current US Administration was committed to disarmament. But you did not open negotiations by putting your final offer on the table. He hoped that progress in this field would be made after the forthcoming German election.

Mrs VEIL said she could not agree with Mr BOYES - particularly his outright rejection of the "zero option". His position smacked too much of anti-Americanism and did not represent a consensus view in Europe. Clearly Europe wished to influence American policy in this field, but this could best be achieved by dialogue rather than confrontation.

Mr RIPA DI MEANA also disagreed with Mr BOYES. And he pointed out that the Italian government was backing the "zero option" and would continue to work together with its other partners in the Western Alliance towards seeking solutions on disarmament issues.

Mr AIGNER said that everyone was concerned about the nuclear threat. But it had to be recognised that the threat came not from US arms but from Russian arms. The Russians did not want nuclear war either. They recognised the need for a balance of power. But they were expansionists and they might be prepared to use nuclear blackmail. We should not put ourselves in a position where we could be blackmailed. This would only encourage the Russians to go to the brink to try to force us to capitulate. He recalled the example of Hitler and Czechoslovakia.

Interparliamentary Relations

In reply to a question from Mrs GREDAL, Mr WINN said that the Chairman of the Foreign Affairs Committee of the House was satisfied with the working arrangements in this interparliamentary link. He did not recognise the 'Schaetzel-Hackett' initiative as formal, to which Mr GIBBONS added that he hoped funds might be found so that when the

European Parliament delegation visited the United States, meetings between delegations could be arranged outside Washington. He felt this would solve the immediate problem. He welcomed Mrs GREDAL's direct approach to Mr_ZABLOCKI.

Mr_BLUMENFELD recalled the importance of continuing contacts between the US Congress and the European Parliament between meetings of delegations on matters that could not be fully covered during delegation meetings.

Mr_PICKLE hoped that Mr BLUMENFELD's suggestion for a US-European Community initiative to coordinate interest rates could be clarified. Mrs_GREDAL hoped that a working group could be set up within each delegation (two members from each side) to make concrete proposals, a suggestion welcomed conditionally by Mr_LANGE who assured members that he would help to attempt to find resources for such practical initiatives. He recalled the misunderstandings that arose when the Schaetzel-Hackett initiative was first set up.

Mrs_VEIL underlined how the European Parliament delegation represented the political groups within the Parliament proportionate to their size. Almost all European Community nationalities were represented also. She warned the Members of the US Congress delegation against assuming that a Group Chairman was the unique representative of that group, since each group covered a wide range of parties and nationalities.

Mr_GLINNE, who participated in both delegation and Schaetzel meetings, regretted that the other Chairmen of groups did not attend this exchange. In his view, all occasions should be seized to inform each other of EC-US relations. The Chairman of Groups' meeting (Schaetzel-Hackett initiative) was strictly informal. The next meeting was due over the weekend in Brussels.

Visa Reciprocity

Over one million tourist visas had been issued for UK citizens visiting the US in 1982, and a further one million for citizens in Western Europe, Lord_BETHELL reported, in his introduction. US citizens visiting Western Europe had no need for such tourist visas. Following an initiative supported by the European Parliament delegation, efforts had been made to invite the US to offer Western Europe reciprocity on this matter. A European Parliament

resolution had been supported by a majority of all MEP's; the EC Foreign Ministers had made a joint approach to the US Administration in November 1982. The US bill that was discussed in the 97th Congress was a step towards offering visa reciprocity, but the bill failed, not because of that aspect. He called for a joint approach from both delegations on this matter.

Mr. SEIBERLING noted that both House and Senate Judiciary Committees had approved a limited programme of non-visa entry to the US. Congress had not passed it because of other aspects of the bill. The US Administration supported such change and he hoped that the 98th Congress would pass it, although he drew attention to the limited nature of the waiver in terms of countries covered and period of the visit.

Mr. THOMAS added that procedures to ensure an adequate system were being examined and that with the forthcoming 1984 Olympics in mind, he was confident that the Congress would make all efforts to pass such a bill.

In memoriam

Mr GIBBONS recalled the positive role that Congressman ROSENTHAL had played in the establishment of the interparliamentary link. He expressed his personal sorrow at Congressman Rosenthal's death. He praised his support for human rights protection worldwide, for free trade and for disarmament and peace, ideas he had continued to support in the Congress throughout his last illness.

Mrs. GREDAL echoed his feelings. She had transmitted deep condolences on behalf of the European Parliament delegation to Mr ZABLOCKI. She expressed the great sadness that the delegation felt at this loss.

The two delegations then observed a short period of silence.

Conclusions

In winding up the meeting, Mrs GREDAL read out a message from the European Parliament President DANKERT:

"Please accept my sincere apologies that I am unable to join you in your deliberations. Your meetings are very timely. During the past year relations between the United States and the European Community have been marked by a series of disputes in which important interests are at stake for both sides. The resolution of these disputes will require a considerable degree of mutual patience and understanding. It is essential that both sides demonstrate a greater appreciation of each others problems and preoccupations. This basis of understanding can only be forged through dialogue and communication, particularly among the legislators on either side of the Atlantic. The biannual meetings between representatives of the US Congress and those of the European Parliament provide an invaluable mechanism in which greater understanding can be forged.

Only through a full and frank exchange of views will we ensure the mutual confidence and respect that is essential to the future health of our relationship".